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IPO - A MECHANISM FOR PRIVATIZATION OF STATE BANKS

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Abstract: This article discusses the theoretical and conceptual foundations of the privatization of commercial banks with state shares. The need to privatize the state share in commercial banks is also justified. The article also analyzes the importance of commercial banks with a state share in the country's economy.

Keywords: privatization, state banks, IPO, GDP, banking assets, bank capital

Introduction

In recent years, in the banking sector of Uzbekistan, great emphasis has been placed on the development of state banks' activities, the transformation of state banks' activities by enriching the existing technical and technological base with advanced information technologies and software products.

One of the main mechanisms of privatization is the use of IPO, i.e. initial public placement of shares. Despite the incomparable importance of state banks in the economy of Uzbekistan, much attention has been paid to their privatization in recent years. In particular, on May 12, 2020, the Decree of the President of the Republic of Uzbekistan No. PF-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" was adopted [1].

Cooperation with the World Bank in the process of developing this Strategy, in particular, in order to develop the main risks in the reform process and the measures aimed at minimizing them, it was attempted to study the positive and negative aspects of the reforms in the banking system implemented in other countries, and as a result, important conclusions were formed.

Firstly, the reduction of the state's share in the banking system is an important factor in the development of the banking system.

Secondly, the process of privatization of state-owned banks should open the way to influential and quality shareholders with advanced technological solutions and advanced banking experience, as well as sufficient financial capabilities.

Thirdly, one of the main conditions for the success of the reforms is full and not partial privatization of banks.

Fourthly, the parallel reform of state-owned banks and real sector enterprises plays an important role in the effectiveness of economic reforms. At the same time, the restructuring and privatization of state-owned enterprises will increase their economic opportunities and sharply reduce state intervention in the activities of banks.

Fifth, in the period of reforms, it is advisable to maintain the state share in some banks in order not to limit the demand for loans of state-owned enterprises and to ensure financial popularity.

Based on the above opinions and considerations, it can be noted that the study of issues of privatization of state shares in banks is becoming increasingly important.

Literature review

Issues related to the privatization of commercial banks with a state share have been studied by many economists and scientists. In particular, O.E.Kuzmina[2], B.Boev[3], J.Gurbanov, S.Omonov, D.Kh.Nuralieva [4] and others researched the main tasks of

commercial banks with a state share, the effectiveness of their activities, their role in the economy.

In particular, J. Qurbanov, S. Omonov, D. Nuralieva conducted research on the analysis of international IPO practices, in which the Postal Savings Bank of China (Postal Savings Bank of China) achieved capital attraction of 4 billion US dollars as a result of the IPO practice and successfully it was noted that the share price increased by 2.3% after the exercise [4].

O.Y. Kuzmina researched IPO practices conducted by banks in Russia[2]. According to their research results, IPO practices theoretically serve the development of banking business. But before making a decision to conduct an IPO, it is noted that it is necessary to assess how correct this decision is. That is, it was noted that making such a decision in a state that is not ready for an IPO can lead to a deterioration of the financial situation. In particular, the necessity of pre-estimation of expenses by banks in conducting international IPO was also emphasized.

Research methodology

In the process of writing the article, interviews were organized with researchers, scientists and industry representatives on the privatization of the existing state share in commercial banks. The opinions of these experts were analyzed through induction and deduction methods. Also used methods such as feedback analysis, expert assessment, process monitoring, economic phenomenon and systematic approach to processes. By conducting a comparative analysis of the research results of other scientists with the author's experiences, in this article conclusions and recommendations in the relevant directions are provided.

Analysis and results

State banks have gained incomparable importance in the development of the economy, and have been performing important tasks such as financial support of small business entities and social support of the population.

According to the relevant privatization programs, the State Assets Management Agency has decided to develop a strategy for implementation of the "People's IPO" based on the principle of "one share - one lot" in 40 state enterprises. An international competition was organized to attract a leading professional consulting company to coordinate this process.

During this selection process, proposals were received from 4 local and international professional consulting companies. The winner was selected based on the participants' financial offer, experience in the field, qualifications and approaches to the implementation of the specified tasks.

As a result of the selection, the international company "KPMG" was chosen as a strategic consultant for the development of the strategy for the implementation of the "People's IPO" and the coordination of the process.

The Strategic consultant performs the following tasks:

- development of the strategy and procedure for the implementation of the "People's IPO" based on the principle of "one share - one lot" based on international experience, taking into account the characteristics of the local market;

- Recommendations on the involvement of investment intermediaries, underwriters, special PR companies and other interested parties in the implementation of the implementation strategy of "People's IPO", including the development of qualification criteria and conditions of involvement;

- Ensuring the coordinated action of the State Asset Management Agency, underwriters involved in the sale of shares, investment intermediaries, electronic platform "E-auction", online payment systems, banks and other interested parties within the framework of the "People's IPO";
- development of methodological recommendations on the optimal marketing strategy, including appropriate marketing instruments and methods, as well as on the preparation of marketing materials (flyers, booklets, banners, memorandums, photo-video clips, etc.);
- The mechanism of placing orders for the purchase of shares, the price range and the purchase by one investor, taking into account the financial situation of the enterprises whose shares are sold through the "People's IPO", the impact of the macroeconomic situation on the enterprise's activities, the market situation in the sector of the enterprise's activity, the analysis of the demand for shares in the market setting restrictions on the number of possible shares;
- development of a model form of the share purchase agreement.

The State Asset Management Agency, together with the international company KPMG, will take all measures to organize the process in accordance with open, transparent and competitive trading mechanisms, and will ensure public information about each stage of the process.

Organizing and conducting an IPO is a time- and money-consuming process and involves certain stages (Table 1).

Table 1. IPO process steps [5]

№	IPO stages	Important aspects of the stages
1.	Selecting underwriter	When choosing institutional investors as underwriters, it is necessary to pay attention to the following aspects: – reputation; – research degree; – experience; – distribution rate, i.e. to whom the underwriter is offering the most of the issued securities (to institutional investors or individual investors); - whether or not there is a mutual relationship with this institutional investor.
2.	due diligence and regulatory filings	The following underwriting agreements exist for the Issuer: – an agreement that provides for a full placement of shares (Firm Commitment); – an agreement that provides for the placement of shares at the level of demand (Best Effort Agreement); – an agreement to cancel the offer if all the shares offered are not placed (All or None Agreement); – An agreement to join a syndicate (group) of underwriters (Syndicate of Underwriters).
3.	Pricing	The following factors affect the bid price: – success / failure of roadshows; – the purpose of the company; – state of the market economy.
4.	Balancing	In this case, the underwriter can increase the amount of capital raised by influencing the price based on market demand
5.	Transition to market competition	This refers to the period after the public offering of shares. The underwriter calculates the amount of capital raised and estimates the company's post-IPO value.

According to Table 1, the stages of the IPO process are described in 5 stages. Choosing an underwriter is one of the most difficult steps in this process. Institutional investors are mainly selected as underwriters, and their reputation and experience play an important role in this. Also, the terms of the agreement with the underwriter are important in the IPO process.

Among the highlighted stages, we should pay special attention to the pricing stage. In this case, it is appropriate to study the financial market, take into account the ratio of supply and demand. In international IPO practices, 3 methods of pricing shares are used: the fixed-price method (also called the open offer method), the auction method, and the bookbuilding method.

These methods differ in access to information, placement of shares, prices and other aspects, and they all have their own advantages and disadvantages. For example, the book-building method is preferred due to the convenience of its mechanisms, while aspects such as institutional agreement, lack of competition of institutional investors are recognized as its disadvantages.

Conclusions and recommendations

As a result of the conducted analysis, a number of conclusions and recommendations were developed:

To increase the efficiency of IPO operations, it is necessary to analyze their organizational stages, as well as methods of organizing IPO operations. It is necessary to study the positive and negative aspects of using fixed price, auction and bookbuilding methods in the IPO process and analyze the international experience in this regard.

Underwriting activity of institutional investors in IPO practice should be emphasized. It is necessary for the company to get acquainted with the choice of the underwriter, its experience and reputation in the market, because the choice of the underwriter is one of the aspects that directly affect the outcome of the IPO. For this reason, we can see that the companies that carried out large IPO operations involved a group of large banks, investment banks, international insurance companies or credit organizations in the underwriting activity.

It would be desirable to further increase the capitalization of state banks, prepare their shares for sale through initial public offering (IPO) and gradually place the package of shares on the stock exchange in order to develop their investment activities. This experience was implemented in the practice of Chinese state-owned banks, and as a result, 4 Chinese state-owned banks entered the top ten in the world ranking by capitalization.

Also, this experiment was carried out by several banks of neighboring Kazakhstan, and it is considered a justified practice. In particular, in 2006, the People's Bank of Kazakhstan sold a 20.0 percent stake in the London Stock Exchange on the basis of an IPO, and the bank's 3.9 bln. gives the result of capitalization in dollar value.

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